NTCA
The Voice of Rural Telecommunications

DOCKET FILE COPY ORIGINAL

96-262

EX PARTE OR LATE FILED

April 29, 1997

RECEIVED
APR 29 1997
Federal Communications Commission
Office of Secretary

Mr. William F. Caton, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Notice
CC Docket No., 96-45

Dear Mr. Caton:

Attached is a letter to Chairman Hundt from the Rural Telephone Coalition. Identical letters, also attached, were sent to Commissioners Ness, Quello, and Chong.

An original and one copy of this ex parte notice is being filed in the Office of the Secretary. Please inlucde this notice in the public record of these proceedings.

Respectfully submitted,

L. Marie Guillory

L. Marie Guillory
Regulatory Counsel

Attachment

cc: Chairman Reed Hundt
Commissioner Susan Ness
Commissioner James Quello
Commissioner Rachelle Chong

The Voice of Rural Telecommunications

April 29, 1997

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W., Room, 814
Washington, D.C. 20554

Re: CC Docket No. 96-45 and
CC Docket No. 96-262

Dear Chairman Hundt:

As the time for resolution of the crucial Universal Service and Access Reform Dockets approaches, the Rural Telephone Coalition (RTC) wishes to respond to the State Members' Second Report on the Use of Cost Proxy Models. In their report the State Members evaluate the models and make comments on the basis of the criteria in the Recommended Decision.

The RTC agrees with the following points in the State Members Report:

1 The State Members conclude that both the Benchmark Cost Proxy Model (BCPM) and Hatfield models have failed several facets of criterion seven, one of the measures the Joint Board recommended to evaluate the proxy models. They specifically conclude that critical input data have not been verified, and outputs have not been demonstrated to be plausible. The RTC agrees and has previously filed comments stating that any proxy model that is chosen must be proven to predict that which it purports to predict. The RTC wishes to point out, however, that more than plausibility of outputs is required. Plausibility implies only the possibility of adequate support rather than proof of verity and accuracy of prediction, requirements in the critical analysis that the models must involve.[1]

---

1 *See* RTC Comments at 4-5, CC Docket No. 96-45, December 19, 1996 where we explained that the word *plausible* is insufficiently rigorous to describe the measure of scrutiny that is needed to gauge the accuracy of the results pruduced by the proposed models. The first given meaning of *plausible* in *Webster's New Collegiate Dictionary* is: 1. *superficially* fair, reasonable, or valuable, *but often specious* <a ~ pretex>." (emphasis added)

National Telephone Cooperative Association, 2626 Pennsylvania Avenue, N.W., Washington, D.C. 20037-1695 Tel 202/298-2300 FAX 202/298-2320

2. The State Members recommend a cost-based benchmark instead of one that is based on national average revenues. The RTC agrees that a cost based model is more appropriate and has previously made the point that the recommended benchmark based on nationwide average LEC revenues for local exchange, access and "discretionary" services misses the mark as an identifier of the level of high cost support which Section 254 of the Telecommunications Act of 1996 requires. A revenue benchmark (a) irrationally compares backward looking revenues with hypothetical forward looking costs, (b) uses historic revenues in a radically changing regulatory environment to identify the revenue streams an ILEC can "expect" in the future, and (c) has no discernable bearing on whether federal support will pass statutory muster as "sufficient," "predictable" and "specific."[2]

Despite our agreement with these two aspects of the State Members' Report, the RTC wishes to point out that it disagrees with the Report in some respects. The Report recommends an overall rate of return of 10.05 as an input value for the BCPM, which it would then recommend as the vehicle to be perfected. It also recommends changes which extend the depreciation lives used in the BCPM model. The RTC disagrees with both of these recommendations. Regardless of what model is chosen, the proper overall rate of return is the prescribed interstate rate of return. That return properly accounts for the risks that are included in the policy making decision that a prescription proceeding involves. There is no factual or legal basis upon which any model should assume or factor into its input a rate of return other than this legally authorized rate established by the Commission in a proceeding providing ample opportunity for public participation under the Administrative Procedures Act.

---

2 *RTC comments at 23-24, December 19, 1996*

Similarly, the extension of depreciation lives to the suggested parameters is unjustified. Instead, of using extended lives, the models should use shorter lives as inputs. The proponents of forward looking cost models assert that telecommunications is a declining cost industry. To be consistent, any model which purports to be forward looking and accepts that premise should threfore use some form of accelerated depreciation. It is also clear that the pace of technology change is increasing and that a competitive environment necessarily means shorter lives. Accordingly, accelerated depreciation is necessary to model risk properly for high cost companies that will be required to operate in a competitive environment and at the same time to meet universal service obligations that necessitate adequate recovery of their legitimate costs.

Respectfully submitted,
THE RURAL TELEPHONE COALITION

NRTA

By: Margot S. Humphrey
Margot Smiley Humphrey

Koteen & Naftalin, LLP
1150 Connecticut Ave., NW
Suite 1000
Washington, D.C. 20036
(202) 467-5700

NTCA

By: David Cosson
David Cosson

2626 Pennsylvania Ave., NW
Washington, D.C. 20037

(202) 298-2300

OPASTCO

By: Lisa Zaina
Lisa M. Zaina

21 Dupont Circle, NW
Suite 700
Washington, D.C. 20036

(202) 659-5990

cc: Chairman Reed E. Hundt
Commissioner James H. Quello
Commissioner Rachelle B. Chong
Commissioner Susan Ness
Mr. James Colthrop
Mr. Daniel Gonzalez
Mr. James Casserly
Mr. Thomas Boasberg
Ms. Regina M. Keeny
Mr. A. Richard Metzger, Jr.
Ms. Kathleen B. Levitz
Mr. John Nakahata
Mr. Joseph Farrell
Mr. James D. Schlichting
Mr. Richard K. Welch